



The weight of trust

A simple idea, a flawless management, and a hopeful community have converted eBay into the first large Internet company.

There is a company in the Internet universe that, besides having invented itself, has also found the exact dimension of the electronic business and, taking advantage of business lessons learned from solid non-Internet companies, has managed to grow while the virtual universe seemed to be falling apart. But this company, eBay, has done something else: it has converted itself into a completely new industry.

Born in 1995 as AuctionWeb, it was at first a modest auction site founded by Pierre Omidyar to fulfill the needs of collectors. The repercussion was so impressive that it soon went beyond the original boundaries, surpassing its creator's expectations, and turned into the biggest, most popular, and successful online business of the planet. eBay's proposition mixes a series of elements that make it different from any other preexisting market:

- It is an open market that grants access to everyone, regardless of previous experience on business activities or transaction size.
- You can trade at any time and remotely (with obvious restrictions related to the current reach of the Internet and eBay's geographical coverage).
- Offers an incredible range of products (from games to corporate equipment).
- Users are the heart of the business and part of a community.
- The consumer experience is presented in a dynamic, fun, and original way.
- User trust in a system that is based on interactions between strangers is the key to its survival.

The company has changed the lives of millions of people, providing them with a place where they can not only buy and sell all kinds of items, but also communicate with each other and create bonds that go beyond the business aspect.

The first push

Interested in taking advantage of the Internet resources to implement a more efficient and fair trading mechanism, Pierre Omidyar, who has a major degree in Computer Science from Tufts University, started to pursue a way to create one that would provide access to everyone and where buyers and sellers would directly speak to each other to negotiate prices. Legend has it that Omidyar was also trying to help his wife, who collected the popular Pez dispensers and wanted a place to buy and sell them. In September 1995 he launched AuctionWeb, a modest auction site with no lucrative ends that was basically aimed at collectors and small businesses and that had been conceived almost like a hobby due to his daily job at General Magic. It was a kind of

virtual “flea market”.

The mechanism idealized by Omidyar was simple, easy to understand, and totally loyal to the Internet power, since it was about forgetting inventories and warehouses to simply create an online market where to offer and find products.

Through word of mouth, the proposal of a free access market spread so quickly that Omidyar was forced to make some changes. He started to collect small fees to maintain the site and to systematically incorporate new categories of products. Likewise, he realized that he needed collaborators who shared his values and were committed to the company.

The arrival of Meg Whitman in 1998 was a milestone. It was then that eBay ceased to be a small venture and turned itself into a mature company, managed in many aspects with the logic of a physical company. A few years later, the Internet breakdown offered the opportunity to show that eBay was a consistent and reliable business.

Today, with around 6,900 employees and an annual revenue that as soon as 2004 final results are known will certainly overcome US\$ 3 billion, it is a large and solid company listed in Nasdaq and present in almost thirty countries.

A successful system

eBay provides 24x7 service that consists of an online trading platform fully automatic and easy to use.

Sellers can list the products that they wish to sell and select either auction or fixed price modes. Buyers can browse through the lists of products in a very wide range of categories and select their buying experience format.

The eBay business is based on charging a fee for all transactions, including the smallest ones. Only the seller party pays the fees and this is done in two occasions: when the product is listed (the fee depends on the presentation form) and when the transaction is concluded (eBay collects a percentage over the amount agreed by the parties).

The formula is incredibly simple: provide a global marketplace and charge a fee over transactions as they get completed. Let buyers meet sellers and vice versa. And let them decide how they want to offer or acquire products, at what price, and at what payment and shipping conditions. eBay’s task is to provide a safe, efficient and pleasurable environment in which customers can develop freely. To this end, it provides additional services such as PayPal, an electronic payment platform that acts as a mediator and offers users a safer and more convenient way to send or receive payments upon their banking data registration.

The big jump

Margaret Whitman was 40 years old when she took over the executive direction of the portal in 1998. She had little experience with technology companies but her background was relevant. Born in New York, she got her degree in Economics from Princeton and an MBA from Harvard. She started her career at Procter & Gamble, where she learned much of what she would use at eBay, for instance, that the customer must occupy a central position. Afterwards, she was manager of the consumer products marketing division at Walt Disney, worked for eight years at the strategic consulting firm Bain & Company, and lead the preschool division of Hasbro Toys.

It was only when she realized that Omidyar’s small Internet company potentially had a unique functionality and an unprecedented community sense that she decided to take his offer. So, she left Boston with her family and went back to California, where they had lived before.

Omidyar’s decision to put her to lead the company was not mistaken. Under Meg’s

The phenomenon



Foundation date: September 1995

Headquarters: San Jose, California

Number of employees: 6,900

Revenue in recent years: 2001: US\$ 748.8 million
2002: US\$ 1.21 billion
2003: US\$ 2.16 billion

First three quarters of 2004: US\$ 2.33 billion

Net profit during first three quarters of 2004: US\$ 572.8 million

Revenue target for 2005: US\$ 4.2 billion

direction, eBay did the big jump and was turned into the most valuable Internet company.

In September 1998, the company launched its first Initial Public Offer (IPO). The fixed price of US\$ 18 for each share tripled during the exchange session and closed at US\$ 47. After the successful start in the stock market, eBay executives realized that they couldn't continue to grow based only on the small users of the auctions. The company

had to evolve to a real business platform. Meg Whitman saw the opportunity to transform it into a bigger marketplace to attend all purposes. She wanted eBay to be the first option for shoppers, a goal that so far could only be achieved by a physical company such as Wal-Mart.

Meg's secret

Miles away from being a businesswoman prototype of the "new economy", Meg Whitman cultivates simplicity both in her appearance and in the way she deals with other people. Owner of a determined yet peaceful character, she loves her job. She is pretty sure about what she does, but she is respectful and soft when inducing others to follow her. She has a genuine interest in understanding the virtual community members, knowing where they come from, and finding out what it is that they wish to buy or sell. Although she sets ambitious goals and takes chances for eBay, she never loses her modesty. She often says that she is a "level 5 manager", according to the characteristics created by Jim Collins. This level corresponds to leaders who are humble and low charismatic, but very determined and willing to give credit to their subordinates. Whitman doesn't worship power, but she sees it like her confessed admirer A.G. Lafley, chief executive officer of Procter & Gamble, as something that is related to someone's ability to build a circle of influence around him or herself. She prefers to give people a position where they can act, rather than leading them. Those who work with Meg say that she shines confidence. And confidence is precisely one of the fundamentals of the eBay business.

Crazy about statistics, she is prone to measure everything that surrounds her. She believes that if you cannot measure something, then you won't be able to control it. Under her influence, eBay adopts a very disciplined business approach with a rather informal scent, which is quite typical of Internet companies.

The pain of growing

As the business grew, eBay's identity, originally a marketplace for individuals and small businesses, began to change and the portal started to be opened to the large companies. This changed the relationships within the community, which was numerically and historically overruled by the small transactions. In the beginning of 2002, many users were complaining that it was no longer the utopian place where everyone could flourish. The fees had gone up and the company seemed to be distractive about its most loyal customers. eBay's answer to this was to conduct a series of user conferences, the first one being held in June of the same year in Anaheim, California. Through these meetings, the company reassured its commitment towards the

user community and made it clear that they both had the same interests. They also managed to convince users that the new initiatives, such as the incorporation of branded products and the option to sell at a fixed price, would benefit both large and small vendors.

The competitive landscape

When Meg Whitman joined eBay, several companies, including OnSale.com, were threatening the business. Additionally, Yahoo! and Amazon.com had started to offer auctions. As time passed by, most rival companies gave up on their intents and now eBay has segmented opponents, but no major global rival. Only Yahoo! has managed to successfully position itself with online auctions in some geographic markets. Amazon, however, is restricted to the used book market; AutoTrader is restricted to used cars; TicketMaster trades tickets to spectacles only; and so on. It is because of this lack of global competitors that Meg Whitman states that an online market industry doesn't exist.

The analysts consider that eBay is the only company that has smartly explored the huge potential of the Internet (e-mail, messaging, virtual communities). With a minimum number of employees for a company of that financial and geographic dimension, and a high payoff based on the absence of inventory, its own directors see it as a company of the future. Its generalist business model is more sustainable and consistent than those of most Internet companies and is inspired on physical companies. The major categories (games, vehicles, collectables) are managed by eBay the same way P&G manages its Tide product, for instance. Each transaction and each customer are followed with the same passion that Wal-Mart executives apply in their company. However, Pierre Omidyar said that eBay is not a company but a "complex adaptive system" (such as the stock market or the weather), which is capable of redefining itself constantly.

The value of a community

In the beginning of October 2004, eBay was reaching the record numbers of 125 million of registered and confirmed users, and 51.7 million of active users (those who have listed at least one product over the previous 12 months). There were 348 million products included in the lists and the total value of goods negotiated during the previous year was equal to US\$ 8.3 billion. All figures mentioned were almost 50 per cent higher than the corresponding periods in 2003.

The small merchants continue to be the basis of this loyal and stable community, which in turn is the heart of the business. This is the reason why eBay is systematically concerned about enlarging it and fulfilling its needs, and why it promotes areas that enable communication between members.

One of the mechanisms created to assure that users continue to trust a system that is based on the interaction between strangers is the Feedback Forum, a place to solve conflicts, obtain help, and establish relationships. At this forum, users can rate their business mates, enabling each community member to have a reputation based on how he or she has been evaluated by the rest.

Policies and values that rule this community are based on the life philosophy of Omidyar, who thinks that people are basically nice. The company's ideal is to have all members sharing these values and managing to interact in an honest and open environment where everyone respects and tries to understand each other.

When eBay directors felt the need to establish their own user communication channel, they created conferences and round tables, some physically, where customers analyzed

the management process of the company and learned online sales techniques. The presence of this active and participative community reduces support and marketing costs, contributes to customer fidelization, and boosts the company into new markets.

The expansion goal

eBay's main goal is to enlarge its user community in a geographical space increasingly wider and more interconnected. This is achieved by:

Creation of local online markets. Business expansion takes place both inside the United States, where coverage already included 50 major metropolitan areas in the beginning of 2000, and abroad. In Latin America, the strategic partnership with MercadoLibre has enabled eBay to introduce itself into eight countries: Argentina, Brazil, Chile, Colombia, Equator, Mexico, Uruguay, and Venezuela. In Asia, a prioritized area of interest for the company, eBay arrives at the Chinese market with optimistic perspectives, tries to regain the leadership lost in 2002 to Yahoo! in Japan, invested on Internet Auction to conquer the South Korean market, and completed in 2004 the acquisition of the online market Baazee.com for US\$ 50 million in India. However, the greatest external opportunity for the company is still in Europe, the only region in the world that offers eBay a potential similar to that of the United States.

Acquisitions. In October 2002, eBay acquired the electronic payment platform PayPal for US\$1.5 billion. Meg Whitman's management board did not support her decision. However, being able to act sometimes against common sense, the CEO completed the operation and eBay's primary goal today is to distribute the PayPal system to all branches. In this same year, eBay acquired the online market of fixed prices Half.com to expand buying and selling options within the community.

IT architecture update. In June 1999, an overload of traffic let the Web site unavailable for 22 hours. Since then, operations director Maynard Webb plays a key part in information technology architecture updates.

To keep thinking about

How to explain the magnitude of eBay's success? Is it due only to the leadership skills of an outstanding person such as Meg Whitman? Is it because of Pierre Omidyar's innovative conception of a more fair and efficient market? Is it a result of using history's most perfect communication channel (Internet)? Is it due to the creation of a powerful community of loyal users, who find in the online market a way to relate with other people?

Undoubtedly, the cause of eBay's success is not restricted to any of these elements, but includes them all. No one can imagine the company without any of these strengths, but maybe the most important one is the presence of a person such as Meg Whitman to combine them and build an inexhaustible market ("Whatever it is, you can get it here"). For this reason, many people ask what will happen to eBay the day Meg leaves the company.

Nevertheless, there seems to be no immediate risks to the world's largest online market platform, as management continues to pay close attention to their million users voices. They will, in turn, keep feeding the company with their most valuable source of power: trust.